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THE NATIONAL CITY BANK OF NEW YORK

1930

Economic Conditions
Governmental Finance
United States Securities

New York, April, 1930.

General Business Conditions

THE state of general business has shown seasonal improvement during the past month, although the steel industry, which made a fine recovery to February 15, has been on a declining scale of activity, reaching a fairly stable position in the second half of March. From a little above 80 per cent of present capacity for the whole industry at the former date, production had fallen to slightly under 75 per cent at the middle of March. Even so, production recently has been at the rate of slightly less than 50,000,000 tons a year, or larger than in any calendar year save 1929.

The decline in steel is not surprising, in view of the fact that that industry evidently had forged ahead of general business and that buyers are following an extremely cautious policy. None of the producers are operating except as needed to keep abreast of orders, and the United States Steel Corporation has shown a slight gain of orders on hand in each month of this year. Railway buying has eased off somewhat from the high volume of the preceding five months and automobile buying has not yet shown a strong revival. These are the two most important elements in the situation. The demand from other sources is well sustained. Evidently the number of used cars in dealers' hands is a large influence in holding down automobile sales. If the companies were taking trade-ins as freely as in past years the volume of sales would be much larger than it is, but they are obliged to restrict that class of business on account of the difficulty in disposing of used cars. Probably the unemployment situation is a factor, as wage earners are large buyers of these cars.

It is now evident that the failure of business to make a more rapid recovery since the first of this year is due to the worldwide extent of the reaction. The fall of prices of staple commodities has been even more serious to other countries. This is most clearly seen in the state of British industry and trade. London has been for more than one hundred years the headquarters of a great trade with her own overseas dominions and colonies, the Orient, the Near East, Africa, Latin America and the continent of Europe, and the pulse of world trade is still felt in London more certainly than anywhere else. The roll of unemployed in Great Britain is now longer than at any time since 1921. The Labor party came into power last June largely on the strength of a challenge that it be allowed to try its hand with the unemployment situation, but the number of unemployed is much larger now than then.

The loss of purchasing power and the enforced policy of economy in all countries are reflected in this country's trade and are a factor in the lessened activity in most of the industries as compared with a year ago.

The world's industries have more than recovered their pre-war capacity, but the markets are overloaded with staple products. However, it is not the first time that like conditions have been known, and the influences which make for recuperation already are forming.

An outstanding development is the sharp drop that has taken place in interest rates, marking the end of a period of credit strain and bringing rates to the lowest point in several years. The factors responsible for this striking change are taken up in our discussion of the banking situation, but in its bearing on general business conditions the advent of really cheap money has been widely heralded, and rightly so, as the most important and promising feature in the general situation. That cheap money is a tonic for the recuperation of business has been proven by long experience. It works in a variety of ways, by encouraging commercial enterprise, new building construction, public utility, railroad and municipal projects and the stock and bond markets, including the sale of foreign bonds which assist the financing of our export trade.

Despite the improvement that has taken place during the past few weeks, the aggregate volume of manufacturing and trade is still running considerably below that of the same date in 1929, but that was the high record

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year for all time and comparisons with previous years make a less unfavorable showing. Of the general barometers, weekly bank clearings for the country as a whole, excluding the thirteen largest cities, averaged $953,738,000 during the first four weeks of March as compared with an average of $1,095,228,000 in March of 1929, representing a decline of 12.9 per cent, a portion of which is accounted for by the lower level of commodity prices. The March figures are 10.1 per cent lower than for 1928 and 8.8 per cent lower than 1927.

Railroad loadings of less than carload lot freight in the first three weeks of March averaged 251,488 cars weekly, which as compared with the 259,797 weekly average for March 1929 represented a decrease of 3 per cent. The Standard Statistics Company index of industrial production, corrected for seasonal variation, reached its low point of 108.7 in December, from which it rose to 112 in January, 115.9 in February and should be in the neighborhood of 118 for March. In February, 1929, the index was 125.7 and in March 129.8.

Number of workers employed in manufacturing industries reporting to the Department of Labor was 1/10 of one per cent higher than in January for all manufacturing industries, while payrolls, which reflect also the number of hours worked, increased 3.5 per cent. Including a number of non-manufacturing lines from which reports are now being received, the combined total of employment in February showed 1/10 of one per cent decrease from January, but payrolls increased 2.9 per cent.

On the other hand, the volume of currency in circulation, which is also looked upon as a valuable index of wage disbursements, has not yet shown an increase.

Outlook for Building

Latest figures on contract awards for new building construction are more encouraging than for several months past, the report by F. W. Dodge Corporation covering the first three weeks of March being only 6 per cent below the corresponding period a year ago.

Residential building normally constitutes about two-fifths of all construction and in this class the slump is still being severely felt. For the first quarter of 1930 the total of residential contract awards may be estimated at around $240,265,600, which is only half the $464,727,200 reported for the corresponding quarter of 1929 and is the lowest for any year since 1923. It is natural that the break in the security markets last Fall should temporarily slow down plans for building private dwellings, multiple family and apartment houses and the suburban developments that had been going ahead rapidly for several years. A further retarding influence has been the mortgage money situation.

At the present time there is an increasing supply of mortgage money, but lenders say that the mortgages offered are not of a particularly choice grade. Moreover, they feel that such loans warrant a fairly high rate, while many prospective borrowers have been led to believe that they should obtain funds at cheap rates. On this question the two have not yet gotten together, but time should soon work out a satisfactory basis for business.

Mention is frequently made of one other deterrent to a full resumption of building activity, namely, the relatively high cost of labor. The Federal Reserve Bank of New York's index of wages in the building trades for February stood at 242, on the basis of 1913 as 100, which compares with 233 in February 1929 and is the highest ever reached. Meanwhile a report given out on March 25 by the American Federation of Labor indicates that 42 per cent of its members engaged in the building trades were unemployed in March (preliminary figures), 43 per cent in February and 34 per cent in March of 1929. A feeling prevails that in view of the general tendency of costs and prices, new buildings may not be a first class investment at the present time.

Automobiles and Machinery

Automobile plants have steadily stepped up their rate of operations since December, but much more gradually than last year, so as not to crowd the dealers with cars. Output of passenger cars and trucks in the United States and Canada during the first quarter of the last three years has been as follows (March estimated):

	1930	1929	1928
January	283,600	422,500	240,200
February	339,500	497,700	336,300
March (est.)	400,000	626,100	430,800
Three Months	1,023,100	1,546,300	1,007,300

While output so far this year is thus only two-thirds that of the 1929 record, it is nevertheless in excess of 1928 and other previous years. Retail sales have been running much closer to production than ever before at this season, and reports on February registrations covering 85 per cent of the country show a decrease of only 8 per cent from February, 1929. It is significant that Ford and Chevrolet have made gains to offset the losses of the rest of the industry and estimates are that Ford and General Motors together will account for about 65 per cent of all production this year.

Machinery and machine tool business is largely routine, being confined chiefly to single items for replacement purposes. An improved volume of orders has come from some quarters, notably the manufacturers of farm implements in the Middle West, and a good demand is reported also from railway car and locomotive

plants, ship builders and the aircraft and engine manufacturers.

Commenting further on the machinery market, the Iron Age in its issue of March 20, says:

> A striking feature of the present situation is the large volume of pending business built up during the past two or three months. Many large industrial corporations with ample cash resources have important machinery replacement programs, but boards of directors or other executives have not yet given the word to go ahead, and no doubt are awaiting more favorable business developments before taking action.

Commodity Price Changes in Other Industries

Outlook in a number of industries has been improved during the past month by a halting of the decline in commodity prices and in some instances a fairly sharp rebound. This is true of cotton, silk, lead, tin, rubber, petroleum and some others. Raw cotton had an almost continuous decline for a full year, going from a high point of 21.6 cents per pound in March, 1929, to 14 cents last month, and since recovering to around 16 cents. A falling market always causes buyers to hold off and the mills had poor business in the last half of 1929, but with the upturn in raw cotton in the last two weeks, the trade has been placing orders more freely. Whenever raw cotton gets down around 15 cents the mill companies have a reasonable basis for confidence that cotton bought at this level will enable them to operate at a profit. Silk prices have also firmed up and warehouse stocks have been cut down since the first of the year, but are still large.

Two of the non-ferrous metals have shared in the price improvement. Lead prices in New York, which were run up to 7¾ cents per pound just one year ago, declined by intervals to 6¼ cents and remained there four months, then in March broke to 5½ cents, this representing a decline of 29 per cent in one year. During the last few days the price has had two advances bringing it to 5¾ cents. Tin sold at nearly 50 cents per pound last year and declined to 35⅞ cents in the early part of March but later in the month was up to 37⅝ cents.

The copper price is still holding at 18 cents where it has remained for twelve months. Shipments to manufacturers of copper products have declined very substantially as compared with last year. Mine production has also been curtailed drastically, in spite of which refined and blister stocks have greatly increased. Demand from the electrical and public utility industries continues good but is insufficent to offset the slump in purchases from other quarters. Leading producers say that the general copper situation is still in balance, inasmuch as mine curtailments put into effect two months ago are just now being felt in smaller output of refined metal. Exports have improved in the last month.

With the curtailment program of the oil industry being made more effective, prices of both crude and refined products have been advanced slightly. Crude petroleum output is running below that of a year ago and many of the refineries are now closing down one day each week. In view of the assured steady growth in gasoline consumption, the outlook for the oil industry, long handicapped by overproduction, is spoken of as the most encouraging for some time.

Woolen goods and rubber tire manufacturing are industries which last year operated in the face of declining markets for their raw materials and suffered losses on inventory adjustments to offset any profits gained from manufacturing, but such a condition should not be repeated this year with the prices of both commodities showing firmness at the lower levels.

Money and Banking

The past month has witnessed a decline of open market money rates to the lowest levels since 1924. Bankers' acceptance rates were cut eight times during the month, bringing the offering rate on 90-day bills down to 2½ per cent, compared with 3¾ per cent at the beginning of the month. Open market rates on commercial paper dropped from 4½-4¾ per cent to 3¾-4 per cent, and Stock Exchange time money from 4½-4¾ to 3½-4, depending on maturities. In the call money market a veritable glut of funds prevailed at times. Opening the month at 4 per cent, rates for new loans made after the posting of the renewal rate soon dropped to 3½ per cent. On the 14th renewals declined to 3½ per cent, for the first time since January 25th, 1928, then to 3 and finally to 2 per cent, with funds offered outside the Stock Exchange as low as 1½ per cent and unlendable at that rate.

That the easing of money was in fact overdone was indicated by heavy withdrawals of funds by interior and foreign lenders and by the stiffening of rates which occurred later in the month, call money rebounding to 4 per cent and acceptances to 2¾ per cent.

On March 15 the Government had approximately $404,000,000 of certificate maturities, and $47,000,000 on the public debt, falling due, plus $100,000,000 of maturing Treasury bills on the 17th. Theoretically, these maturities should have been offset by income tax collections, without disturbing the equilibrium of the money market, but actually they were not, because of the unavoidable delay in clearing and collecting tax checks, which did not have to be mailed by tax payers until the 15th. Consequently the Government had to borrow temporarily from the Reserve banks, and the money market was the recipient of a large

amount of Government disbursed funds without compensating withdrawals until the collection of the tax checks absorbed the excess and re-established a balance. All this is a more or less familiar occurrence at quarterly tax periods, but it appears to have been lost sight of in the present instance.

Nevertheless the outstanding fact is that fundamental credit conditions have undergone a marked change for ease not only in this country but all over the world. The collapse of the world-wide speculation in Wall Street, the depressed state of business in this country and abroad, the fall of commodity prices and shrinkage in international trade, representing the aftermath of last year's over-production and over-expansion, have reversed the equation of the supply of and demand for credit, and resulted in an accumulation of short time funds which is pressing on the money markets of the world. And besides these world-wide factors there has been in this country the added influence of a gold import movement approximating $120,000,000 since the first of the year (chiefly from Japan), and a central banking policy favorable to easier money.

The following table comparing rates for the different types of short term investments at the end of March this year and a year ago illustrates how radically the money situation has been altered over the past twelve months:

	Week of Mar. 30, 1929	Week of Mar. 31, 1930
Call Loans	8 —20	3½—4
Time Loans (60-90 day)	8 — 8½	4
Acceptances (90-day asking rate)	5½— 5⅝	2½—2¾
Commercial Paper	5¾— 6	3¾—4

Reduction of Reserve Bank Rates

Accompanying the further easing of open market rates, Reserve bank discount rates have continued to be marked down, the rate at New York being reduced from 4 to 3½ per cent on March 14, while three other regional Reserve banks—Cleveland, Philadelphia and San Francisco—lowered their rates from 4½ to 4 per cent. The following table shows the rates in effect at the different banks at the close of the month, together with previous rates and dates of change:

DISCOUNT RATES OF FEDERAL RESERVE BANKS ON ALL CLASSES AND MATURITIES OF ELIGIBLE PAPER

Federal Reserve Bank	Rate in Effect on Mar. 28	Date Established	Previous Rate
Boston	4	Feb. 13, 1930	4½
New York	3½	Mar. 14, 1930	4
Philadelphia	4	Mar. 20, 1930	4½
Cleveland	4	Mar. 15, 1930	4½
Richmond	4½	Feb. 7, 1930	5
Atlanta	4½	Dec. 10, 1929	5
Chicago	4	Feb. 8, 1930	4½
St. Louis	4½	Feb. 11, 1930	5
Minneapolis	4½	Feb. 8, 1930	5
Kansas City	4	Feb. 15, 1930	4½
Dallas	4½	Feb. 8, 1930	5
San Francisco	4	Mar. 21, 1930	4½

New Clearing House Rates on Deposits

Conforming also to the general decline of interest rates, the New York Clearing House on March 18 took action to lower rates payable on deposits effective March 26. Following is the new schedule of maximum rates that may be paid:

On Certificates of Deposit payable within thirty days from date of issue; and on Certificates of Deposit payable within thirty days from demand; on Credit Balances payable on demand; and on Credit Balances payable within thirty days from demand.

To Banks, Trust Cos. and Private Bankers, but excluding Mutual Savings Banks	To Mutual Savings Banks	To Others
2%	2½%	2%

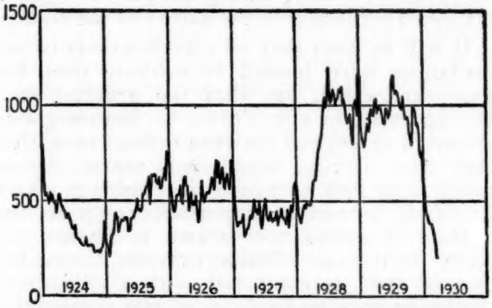
At the rate of 3% on Certificates of Deposit or Time Deposits, by their terms, payable on or after thirty days, but not more than six months, from the date of issue or demand; and without regulation as to rate on such Certificates or Deposits payable more than six months from the date of issue or demand.

While this schedule contains for the most part no new features, attention is directed to one important innovation which has thus far excited little comment. This is the provision exempting deposits payable more than six months from date of demand from regulation as to rate, thus giving the banks a freer hand in bidding for long-time, or "patient" money. The growing practice of corporations of lending their funds direct in the Street has induced banks to consider ways and means, consistent with sound banking, of rendering deposit rates more attractive. In the case of money which can be counted on to stay for long periods, it is recognized that a basis exists for liberalizing the regulations, and the new agreement is thought to open the way for banks to compete more effectively for this class of money against the call market.

The Liquidation of Reserve Bank Credit

The liquidation of Reserve bank credit continued during March and in the latter half of the month the total of bills and securities owned by the Reserve banks was down to the billion dollar level for the first time since 1927. The decline centered chiefly in rediscounts and advances, the Reserve banks having permitted their bill portfolios to run off much more slowly and having actually increased their holdings of Government securities to $529,000,000 by the end of the month, as against $170,000,000 a year ago. As a result, the total of member bank indebtedness in the last two weeks of the month amounted to little more than $200,000,000, the lowest since a brief period in 1925 and with that exception the lowest since 1917.

The accompanying diagram shows the course of member bank indebtedness at the Federal reserve banks during recent years, and indicates the manner in which the total has been reduced since the stock market crash last Fall.



REDISCOUNTS AND ADVANCES OF FEDERAL RESERVE BANKS FOR MEMBER BANKS
(In Millions of Dollars)

By way of further analysis of liquidation we give the following table comparing the reduction of member bank indebtedness by different groups of banks. The figures given show separately the trend of borrowings in the principal financial centers of New York and Chicago, and of "other reporting members" located in 101 cities ranking next in importance. Totals for "non-reporting members" cover the remaining banks of the System, and may be taken as fairly representative of the condition of the smaller member banks.

ANALYSIS OF MEMBER BANK BORROWINGS
(In Millions of Dollars)

	Mar. 20 1929	Oct. 23 1929	Jan. 29 1930	Feb. 26 1930	Mar. 19 1930
New York City members	126	41	20	1	....
Chicago members	146	4	2	1	....
Other reporting members	439	509	171	150	51
Non-reporting members	232	242	213	191	155

It will be seen that the big New York and Chicago banks have been practically out of debt for some time, and on March 19 were not borrowing a single dollar, as contrasted with the situation a year ago when New York banks were in the Federal Reserve for $126,000,000, and Chicago banks for $146,000,000. This absence of indebtedness at the financial centers is an important factor in the money situation, for it means that any inflow of funds from the interior or from abroad, instead of going partly to a reduction of bank borrowing, is added in total to bank reserves where it serves as a basis for a still greater multiplication of deposits, with consequent intensification of pressure on money rates.

Outside of New York and Chicago, liquidation, while slower at first, has gone forward rapidly in recent months, particularly in the group of "other reporting members" where borrowings are down from $509,000,000 in October to $51,000,000 on March 19. "Non-reporting members," comprising largely the smaller banks, show as usual less elasticity than the larger banks, but nevertheless the decline here too has been substantial and brings the total for the group down close to the average for normal years.

Contributing partly to the liquidation of Reserve bank credit was an increase of $61,000,000 in the gold reserves of the Reserve banks during March. This, together with a decline of Federal reserve notes in circulation, resulted in a rise in the Federal reserve ratio of reserve to liabilities to 81.8 per cent, the highest since August 1924.

Upturn in Member Bank Credit

Contrasting with the downward trend of Federal reserve credit, member bank credit during the past month has shown the first tendency towards expansion since the stock market break. After declining from $22,895,000,000 at the pre-panic peak to $22,003,000,000 at the recent low point in February, the total loans and investments of the weekly reporting member banks recovered to $22,514,000,000 by March 19, or by approximately half a billion dollars. Of this increase, security loans accounted for over $400,000,000, the balance occurring in bank investments in securities for own account, attending the offering by the Treasury of a new issue of certificates on the 15th and generally increased activity in the bond market during the month. "Other" loans, generally considered representative of business borrowing, continued to make a disappointing showing, the total of $8,793,000,000 on March 19 being practically no higher than at the end of February and below the aggregate of $8,910,000,000 reported for March 20 a year ago.

With the recent recovery in loans on securities, it is interesting to note that the total of this classification is once more above the high point reached just before the market break and also above the total for a year ago at this time, the comparative figures being $8,054,000,000 for March 19 this year, $7,920,000,000 for October 23, and $7,642,000,000 for March 20 a year ago. It should be remembered, however, that during the past six months the banks have taken over a large amount of stock loans which had been carried by other lenders. And this shift is continuing, as the low money rates prevailing recently have been inducing corporations and other private lenders in the call market to withdraw their funds and transfer the burden of financing the market to the banks.

The following table comparing the detailed figures of loans to brokers reported by New York City banks shows the extent of rise in the total of loans since the low point of the

year, as well as the tendency for the banks to supply an increasing proportion of the requirements:

LOANS TO BROKERS BY N. Y. CITY REPORTING BANKS
(In Millions of Dollars)

1930	For Own Account	For Out-of-Town Banks	For Account of "Others"	Total
Feb. 5....	928	927	1,547	3,402
" 11....	924	989	1,536	3,450
" 19....	962	987	1,545	3,494
" 26....	953	980	1,556	3,489
Mar. 5....	1,006	1,032	1,545	3,583
" 12....	1,146	1,079	1,494	3,720
" 19....	1,266	1,171	1,404	3,841
" 26....	1,424	1,118	1,278	3,820

On March 26 the amount of these loans by New York banks for own account was the largest except for temporary year-end peaks since the publication of these figures was begun in 1926. Loans for account of "others," on the other hand, were the lowest since March, 1928. At $1,278,000,000 the total of this item compares with $3,941,000,000 at the October peak, and $564,000,000 at the beginning of 1926.

The Acceptance Situation

In a foregoing paragraph brief reference was made to a decline in the Reserve bank portfolio of acceptances during recent weeks. Total holdings of such bills by the Reserve banks on March 26 amounted to $256,000,000, which compares with $299,000,000 at the end of February, and $208,000,000 at the end of March a year ago, when the volume of bills held by the Reserve banks was being allowed to run off rapidly. The decline in the Reserve bank portfolio since February is in accord with the usual trend at this season when the volume of acceptances outstanding decreases, as staple commodities shipped under acceptance credits reach their markets. Total bills outstanding at the end of February amounted to $1,624,000,000, as against $1,692,000,000 at the end of January, and $1,732,000,000 at the peak for all time reached at the end of December.

Of more significance than the decline in outstanding acceptances since December is the fact that notwithstanding the reduced volume of international trade and fall of commodity prices during recent months, the total at the end of February was still $396,000,000 higher than at the end of February last year and $567,000,000 higher than at the end of February two years ago, thus providing evidence of the rapidly growing use of dollar acceptance credits. The accompanying table is of interest as showing the growth of the acceptance business during the past five years, classified according to the nature of the credits.

It will be seen that all classifications of acceptances have tended to increase over the five-year period, but that the greatest gain has occurred in bills drawn to finance goods stored in or shipped between foreign countries, this item having multiplied nearly fifteen times since 1926 to a point in February where it stands second in importance only to the volume of acceptances drawn to finance exports. In the case of import credits, the reduction in 1930 as compared with 1929 reflects the lower price and volume of raw commodity imports.

The fact that the increase in Reserve bank holdings of acceptances over a year ago has been no greater in the face of the substantial increase in the amount of bills outstanding during the same period would seem at first sight an encouraging indication of a broadening market for acceptances in this country. Much of the difference however, is accounted for not by domestic open market buying but by purchases for account of foreign banks and investors. For example, the Federal reserve statement of March 26 shows an increase over a year ago in contingent liability on bills purchased for foreign correspondents amounting to $165,000,000, bringing the total of such liability to $496,661,000.

Further striking evidence of the importance of foreign funds in our bill market appears in the analysis of American exports and imports of short term capital for 1929 published by the Department of Commerce on the basis of returns from 191 leading international banks and banking houses in the country. This showed total foreign funds invested in dollar acceptances at the end of 1929 to have been $891,132,000, as against $564,601,000 at the end of 1928. Adding to this the $392,000,000 Federal reserve portfolio at the end of 1929 and comparing the combined total of $1,283,000,000 with the $1,732,000,000 acceptances outstanding at that date, it appears that Reserve bank and foreign holdings of bills accounted for

BANKERS' ACCEPTANCES OUTSTANDING BY TYPES OF CREDITS
(In Millions of Dollars)

End of February	Imports	Exports	Domestic	Warehouse Credits	Dollar Exchange	Based on Goods stored in or shipped between foreign countries	Total
1926	326	280	21	90	19	32	768
1927	302	275	25	116	23	44	785
1928	320	383	19	168	29	138	1,057
1929	341	422	17	137	47	264	1,228
1930	335	475	26	256	63	469	1,624

74 per cent of the total, leaving only 26 per cent as the amount taken in the open market by domestic investors.

Foreign Money Rates and Exchanges

The month of March brought continuation in the downward trend of money rates in Europe. The Bank of England, which has been reducing its discount rate by one-half of one per cent every month since October, 1929, with the exception of January, 1930, made two additional reductions during the month, one on March 6 and the other on March 20, bringing the bank rate down to the 3½ level, the same as that of the New York Reserve Bank. From the peak of 6½ per cent last October 31, to date the downward readjustment has been one of the sharpest in the history of the British official rate, always well known for its elasticity.

Despite the prompt adjustment of the bank rate and an apparent attempt by the Bank of England to make this rate effective by selling Government securities, the bill rate in London sagged much faster and on March 24 was down to 2⅛-2 3/16, making another reduction in the bank rate not unlikely.

As usual, the first reduction in the Bank of England rate brought in its wake a wave of reductions of central bank rates in other countries, including Netherlands, Germany, Denmark, Sweden and Poland. The second reduction was followed by lowerings in Norway, Austria and again in Germany and Netherlands. In the table below we give the dates and figures of the principal changes in central bank rates during the month:

Mar. 3	Italy	7 to 6½
Mar. 6	England	4½ to 4
Mar. 6	Netherlands	4 to 3½
Mar. 6	Denmark	5 to 4½
Mar. 6	Sweden	4½ to 4
Mar. 7	Germany	6 to 5½
Mar. 14	Poland	8 to 7
Mar. 20	England	4 to 3½
Mar. 20	Norway	5 to 4½
Mar. 21	Austria	6½ to 6
Mar. 24	Netherlands	3½ to 3
Mar. 24	Germany	5½ to 5
Mar. 28	Hungary	6½ to 6

With these new rates in effect Europe generally is experiencing the cheapest money period since before the war. Thus far, however, the benefits of cheap money have been confined rather generally to the countries of western and northern Europe. While the discount rates of central and southeastern Europe are normally above those of the international markets of western Europe, it is evident from the following table that the current rates in many of these countries are still above the 1913 average, notwithstanding substantial decreases from the recent peak:

PRE-WAR AND PRESENT BANK RATES IN EUROPE

	Average for 1913	Rate Jan. 1 1928	High in 1929	Present Rate
England	4.8	4½	6½	3½
France	4.0	4	3½	3
Belgium	5.0	4½	5	3½
Netherlands	4.5	4½	5½	3
Switzerland	4.8	3½	3½	3½
Sweden	5.1	3½	5½	4
Denmark	5.9	5	5½	4½
Norway	5.5	5	6	4½
Germany	5.9	7	7½	5
Italy	5.7	7	7	6½
Czechoslovakia	6.0*	5	5	5
Austria	6.0*	6½	8½	6
Hungary	6.0*	6	8	6
Poland	—	8	9	7
Roumania	6.0	6	9½	9
Greece	6.5	10	9	9

* Rate of Austro-Hungarian Bank.

Cheapness of money in the short term markets should not, however, convey a mistaken impression as to the status of the long term capital markets. In a recent number of "Die Bank", Mr. Lansburgh points out the necessity of issuing the new conversion loan in England to yield more than 5 per cent. In Germany the new series of treasury certificates was issued to bear 6¾ per cent interest, because, in the words of Mr. Lansburgh, "the market for long term investments has been flooded with the offerings of new 8 per cent paper under conditions which brought the yield up to 9 per cent."

Following are quotations on a group of representative German internal securities, quoted in a recent investment circular, which illustrate specifically the continued high cost of capital in that market:

	Maturity*	Market	Yield to maturity: after and before deduction of tax	
SHORT TERM NOTES				
Saxony 8s	June 1, 1932	96¾	8.94%	9.77%
Berlin 8s	Oct. 1933	95	8.89	9.70
LONG TERM BONDS				
Leipzig 8s	1954	88	8.36	9.27
Dresden 8s	1948	87½	8.56	9.48
Preuss. Pfandbr'bk Com. Gold 8s Ser. 17	1965	90	8.05	8.93
Kloeckner Steel 8s	1950	94	7.78	8.63

* Since most German bonds are retired by annual sinking fund, actual maturity is probably sooner, and yield correspondingly higher.

Rise of Foreign Exchanges

Under the influence, apparently, of lower money rates in Wall Street, sterling exchange recovered from $4.85 15/16 to slightly above par of $4.86 21/32 and a new high since January. Francs rallied from 3.91 1/16c. to 3.91⅞c., and marks from 23.82¾c. to 23.88c. Later, as money rates here rebounded from the extreme low levels, there was some reaction in exchange rates from the high points.

Canadian funds were strong during the month, going above par, after selling for more than a year and a half at a discount which in October, 1929, was as much as 2⅞ per cent.

Removal of Restrictions on Italian Exchange

A constructive development in the exchange market deserving of special mention was the action by the Italian Government on March 11 in removing all restrictions on dealings in lira exchange. It will be remembered that when Italy returned to a gold basis in December, 1927, the Government continued to exercise a degree of control over exchange operations. The principal object of this control was to guard against undue speculative pressure or export of capital, and to limit transactions so far as possible to commercial or other approved purposes until such time as the adjustment of the country to stabilization could be regarded as assured.

During the past year, Italy in common with other countries of Europe, has had to contend with high money. In keeping the exchange above the gold export point, the Bank of Italy, like other European central banks, sustained a loss of foreign exchange reserves, but owing to the decrease in circulation and sight liabilities the reserve ratio was nevertheless maintained in excess of 50 per cent.

Efforts of the Government have been centered on reducing the trade deficit, and last year it was successful in bringing it down by some 900 million lire to 6,470 million lire, chiefly by encouraging the domestic production of wheat and other foodstuffs. Moreover, with the Hague settlement, by which Italy's share of German reparations was increased from 10 to 12 per cent, a complete parity between out-payments for inter-allied war debts and her receipts on reparations account is assured. In the field of national finance the budget balance is maintained, and sure indication of an improvement in fiscal affairs was afforded by the formal assurance given by the Minister of Finance that no recourse will be made to compulsory funding of the 9-year Treasury bonds maturing within the coming year, as was necessitated in the case of the 1927 maturities.

Reflecting partly the above accomplishments in the face of difficulties and partly the decline of money rates abroad, Italian exchange has improved notably in recent months, and on March 2 the Bank of Italy reduced its rediscount rate from 7 to 6½ per cent. A few days later came the announcement of removal of all restrictions on free trading in lire, which affords final proof of the confidence of the highest Italian authorities that stabilization is now an accomplished fact.

The Bond Market

The bond market has given recently a most convincing demonstration of a return to vigorous health. Under the stimulus of a combination of favorable influences, the month of March has witnessed the strongest and most active investment market in more than two years.

Among the factors contributing toward this result, the spreading ease in interest rates has been outstanding. Another important influence has been the recent sharp decline in commodity prices which has increased the attractiveness of fixed income investments because of their enhanced purchasing power. It has long been axiomatic that bondholders are the chief beneficiaries from a period of declining commodity prices. In addition, the relatively small volume of new financing in February enabled dealers to enter the month of March with few bonds on their shelves remaining unsold.

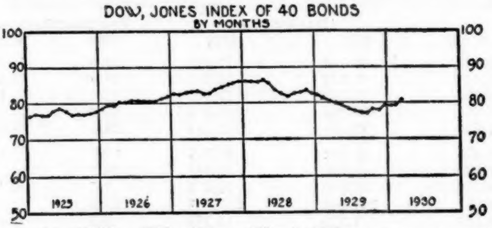
Another factor deserving of special mention is the steadily increasing demand for dollar bonds from European sources. This phenomenon has been apparent since the first of the year and was commented upon in our February Bank Letter. It is the result of the rapid decline of interest quotations abroad which has carried rates in the leading European money centers to the lowest general average since the war. This situation gives the present bond market a character for which the past sixteen years can show no parallel. In 1926 and 1927, for instance, when bond prices were advancing in this market, the United States was the only important country in the world with genuinely low interest rates. Consequently, the demand for bonds came almost entirely from domestic sources. Now, however, the bond market is benefitting from a money ease that is much broader and which is bringing to the United States a large volume of purchasing power from many different countries. This foreign demand for dollar bonds has continued strong throughout March and shows no present indications of slackening. In fact, the total volume of bonds purchased in March for foreign account was probably in excess of the large February total.

In addition to the investment buying from abroad two large European governmental issues have been called for redemption since November. In December last the $25,000,000 issue of Kingdom of Sweden 6's, maturing in 1939, was redeemed at 102. On March 21 notice was given that the Kingdom of Belgium 7½'s maturing in 1945 will be redeemed at 115 on June 2 of this year. The amount of these bonds now outstanding is $30,000,000 out of an original issue in 1920 of $50,000,000.

There are numerous other issues of European governments, now selling above their re-

spective redemption prices, and it is anticipated that many of these will be called at the earliest possible redemption dates during the next two years.

During the first three weeks of March bond prices advanced so rapidly as to give the appearance of a runaway market. At times the bond market was fairly boiling as buyers struggled to obtain bonds of all types at quotations which were often marked up several times during a single day. The Dow, Jones index of 40 bonds at the close of the market on March 28th stood at 80.57. This compares with the 1929 low of 77.23 reached in September last, and the post-war high of 86.26 in



April, 1928. The New York Times average of 10 foreign government bonds stood on March 25th at 107.97. This figure is the highest ever reached by this average and compares with a previous high of 107.42 reached in April, 1928.

The demand for bonds has continued to be very largely of an institutional character. Savings banks, insurance companies, investment trusts, and to some extent commercial banks, have all been purchasers of investment securities. In addition, many railroads and industrial corporations lately have been induced by the low interest rate to withdraw large sums from the call money market for investment in high-grade bonds.

New Financing

According to the compilation by the Journal of Commerce, new bond issues floated in the domestic market from March 1st through March 25th totalled $552,000,000 against a total of $343,000,000 in February, and $720,000,000 in January. Railroad issues have comprised the largest item in the March figures, the total of $176,000,000 exceeding the combined total of railroad issues for January and February. New foreign flotations were also large, totalling $138,000,000 against $104,000,000 in February and $46,000,000 in January. New municipal issues totalled $84,000,000 against $67,000,000 in February and $74,000,000 in January. Public utility and industrial totals for March were $61,000,000 and $63,000,000 respectively. New stock issues were again quite small, the total of $52,000,000 comparing with $24,000,000 in February and $32,000,000 in January.

The market has absorbed readily this increased volume of new offerings and has shown no signs of becoming congested as it did in January. While there has been considerable speculative buying of new issues, such bonds have apparently been passed on rapidly into strong investment hands, and there is little evidence of any accumulation of bonds on the shelves of dealers.

During the last few days of March there was some slackening in the bond market from the extreme activity of the first three weeks of the month. This lull was due to a slight firming in money rates and the feeling that the rate of advance in previous weeks had been too rapid to sustain. Nevertheless, bond dealers are generally looking forward with confidence to a good market for a considerable period to come. This belief is based largely upon the assumption that money rates are likely to remain at relatively low levels for some time and that the volume of new issues will not prove too great for the market to absorb.

Profits Return on Net Worth

Continuing the study of business profits summarized last month in a tabulation of corporate earnings, we have prepared an analysis to show the net worth of the reporting companies in the different industries and the percentage of profits realized. Some five hundred names have been added, representing companies whose statements for 1929 were not at that time available or which closed their fiscal year in the early part of 1930 although the major part of their business came within the 1929 calendar year.

The tabulation which appears on the following page includes all the reports that we have been able to secure from published sources of corporations in every line of industry and trade, but not public utility or financial companies, whose figures for the past two years were not available. Profits are net before dividends but after deducting all expenses, reserves for depreciation and depletion, interest on borrowed money and provision for taxes, with the exception of a limited number of reports which show only the earnings before certain charges. Net worth is the stockholders' equity, made up of preferred and common stock outstanding, surplus account and undivided profits, taken at the beginning of the fiscal year, which for ninety per cent of the companies corresponds with the calendar year.

For the 1,520 companies in all lines of manufacturing and trade, the grand total net profits in 1929 amounted to $4,150,000,000, which compares with $3,549,000,000 in 1928 for the identical companies. There was a gain in 1929 over 1928 of $601,000,000 or 17 per cent. At the beginning of 1928 these companies had a combined net worth of $30,378,000,000, on which that year's return represented a return

of 11.7 per cent. At the beginning of last year the net worth of the same companies had been increased by $1,963,000,000 to $32,341,000,000 through the sale of additional stock and from surplus earnings retained in the business, on which the 1929 profit represented a return of 12.8 per cent.

Space does not permit taking up a discussion by separate industries, but the figures speak for themselves and an examination of the table will reveal those lines that have enjoyed prosperity as well as those which have made only a subnormal rate of return or actually operated at a loss. A majority of the industrial groups include one or more companies that reported deficits in 1929, the total number of such being one hundred twenty-five and their combined losses aggregating $68,093,000, which have been deducted in arriving at the totals. In the tire industry, there were eight deficits amounting to $14,815,000, as a result of the decline in crude rubber prices, and in three other major industries, namely, leather tanning, sugar production (in Cuba) and woolen goods, there was a net balance of deficits on all statements published.

CORPORATION PROFITS RETURN ON NET WORTH

000's Omitted

No.	Industry	Net Worth Jan. 1, '28	Net Worth Jan. 1, '29	Net Profits 1928	Net Profits 1929	Per Cent Return 1928	Per Cent Return 1929
16	Agricultural Implements	$ 504,836	$ 541,031	$ 60,704	$ 72,277	12.0	13.4
18	Amusements	382,192	450,459	41,829	72,943	10.9	16.2
29	Apparel	176,822	188,172	22,935	22,231	13.0	11.8
27	Automobiles and Trucks	1,449,154	1,552,631	400,963	365,105	27.7	23.5
64	Auto Accessories	407,570	465,879	93,655	109,714	23.0	23.5
10	Aviation	101,328	116,454	15,742	20,315	15.5	17.4
20	Bakery	331,004	357,450	48,749	55,443	14.7	15.5
49	Building Materials (a)	659,018	694,492	57,590	60,375	8.7	8.7
32	Chemicals	1,043,766	1,176,035	180,049	211,163	17.2	18.0
24	Coal Mining	518,160	520,893	9,230	12,168	1.8	2.3
17	Confectionery and Beverages	172,049	188,113	40,179	47,023	23.4	25.0
48	Cotton Mills	390,522	393,284	14,558	15,629	3.7	4.0
15	Dairy Products	163,106	227,022	32,547	48,802	20.0	21.5
22	Drugs and Sundries	313,977	346,567	65,753	82,265	20.9	23.7
52	Electrical Equipment	905,121	989,791	143,364	175,615	15.8	17.7
6	Fertilizer	170,854	179,876	11,606	7,177	6.8	4.0
9	Flour Milling	61,472	65,551	8,085	10,125	13.2	15.4
33	Food Products—Miscellaneous	645,682	690,996	107,860	114,162	16.7	16.5
12	Furniture, etc	89,918	89,194	4,275	5,102	4.8	5.7
25	Heating and Plumbing	334,921	345,926	40,410	49,126	12.1	14.2
7	Hotels	25,215	33,073	2,640	3,047	10.5	9.2
49	Household Supplies	700,962	726,380	101,795	106,786	14.5	14.7
57	Iron and Steel	3,445,342	3,543,054	240,982	397,682	7.0	11.2
8	Laundry and Cleaning	13,519	13,562	2,109	2,171	15.6	16.0
14	Leather Tanning	131,639	134,915	5,862	D-7,557	4.5	D-5.6
16	Lumber Products	117,419	122,217	7,232	7,181	6.2	5.9
95	Machinery, etc.	736,307	763,149	80,745	108,836	11.0	14.3
23	Meat Packing	674,835	673,946	39,940	36,746	5.9	5.5
54	Mdse.—Chain Stores	629,172	763,280	141,740	151,696	22.5	19.9
30	Mdse.—Dept. Stores	469,044	485,871	51,255	49,688	10.9	10.2
6	Mdse.—Mail Order	246,687	312,184	49,247	44,930	20.0	14.4
11	Mdse.—Wholesale	92,946	95,293	7,029	6,437	7.6	6.8
40	Metal Mfg.—Misc.	196,792	208,553	28,755	37,007	14.6	17.7
24	Mining—Copper	1,114,104	1,232,196	172,060	204,924	15.4	16.6
26	Mining—Other Non-Ferrous	826,610	878,484	85,878	108,844	10.4	12.4
22	Office Equipment	211,590	224,695	36,722	47,411	17.4	21.1
12	Paint and Varnish	128,482	137,259	15,974	18,376	12.4	13.4
44	Paper and Products	294,542	317,736	23,490	38,173	8.0	12.0
79	Petroleum	6,020,096	6,388,135	590,551	706,574	9.8	11.1
11	Pipe Lines	186,677	190,463	22,813	26,767	12.2	14.1
28	Printing and Publishing	179,038	187,635	36,484	40,292	20.4	21.5
21	Railway Equipment	791,577	799,133	46,556	66,668	5.9	8.3
3	Rayon	31,552	51,815	4,110	4,475	13.0	8.6
12	Real Estate	101,989	128,744	11,865	12,384	11.6	9.6
11	Restaurant Chains	63,139	64,578	6,935	9,162	11.0	14.2
23	Rubber Tires, etc.	595,608	621,635	4,073	24,478	0.7	3.9
18	Shipping, etc.	295,090	295,745	10,624	17,004	3.6	5.7
15	Shoes	202,198	210,409	26,977	27,580	13.3	13.1
20	Silk and Hosiery	114,016	120,954	10,060	9,403	8.8	7.8
7	Stock Yards	24,617	25,076	2,538	2,654	10.3	10.6
18	Sugar—Cuban	315,619	300,193	D-2,897	D-3,195	D-0.9	D-1.1
33	Sugar—Other	394,889	407,731	36,441	25,979	9.2	6.4
23	Textile Products—Misc.	229,215	247,288	20,290	21,746	8.9	8.8
30	Tobacco	831,569	850,095	109,771	120,850	13.2	14.2
8	Warehouse and Storage	47,942	49,638	4,163	4,267	8.7	8.6
7	Wool	160,143	153,533	D-1,883	D-5,648	D-1.2	D-3.7
87	Miscellaneous	916,530	1,002,893	116,145	129,772	12.7	12.9
1,520	TOTAL	$30,378,183	$32,341,356	$3,549,154	$4,150,350	11.7	12.8

D—Deficit (a) Includes Building Specialties

Any study of this kind that is based on the published reports of corporations cannot embrace numerous lines of business such as farming, general stores, small factories, personal services and the professions, for which complete figures are not obtainable because they are operated by individuals, partnerships and closed corporations. On the other hand, in many industries a very substantial portion of the total business is handled by large corporate organizations, as for example, the manufacture of steel, automobiles, tires, machinery, tobacco, and the operation of chain stores. By taking the net worth at the beginning of the year, the percentage of net profit would necessarily be slightly higher than if the net worth at the end of the year, or the average, were taken, thus allowing for any additions to capitalization or undistributed earnings that were in use for a portion of the year, but this is hardly feasible, and so long as both years are calculated on a similar basis the percentage figures should be fairly comparable. Whenever a consolidation occurred, the profits and net worth, if obtainable, of the companies absorbed have been taken into account. It must be borne in mind that 1929 was an unusually prosperous year, substantially exceeding 1928, which was the previous record year in earnings. Despite these and other qualifications which might be mentioned, such a broad collection of reports gives a highly interesting cross-section of American business and furnishes a rough index against which the results of particular industries and individual companies may be measured.

Among the manufacturing and trading corporations whose reports were analyzed, all but 7 per cent have a capital and surplus in excess of $1,000,000. Five hundred and twenty-six have a net worth of over $10,000,000, and sixty-five organizations have more than $100,000,000. In 1929 there were one hundred and sixty-nine corporations whose reported net profits were over $10,000,000 including eighty-nine miscellaneous industrals, twenty-three railroads, forty-three public utilities and fourteen financial companies. The 1928 list of these companies in the $10,000,000 class numbered but one hundred and forty-two, and going back five years to 1924 the records show only seventy-five, the increase in recent years being explained in part by the merger of companies that were individually below this figure. Practically all of these enterprises are the successful outgrowth of businesses originally started many years ago, in some cases more than a century, whose scope of operations is national or international and whose stock is owned by investors numbering in the millions. There are now more than a score of "billion dollar corporations" in America based on total assets on December 31, 1929, including three industrials, six railroads, four public utilities, six banks and five insurance companies.

Farm Board Policies

Interest in the markets for farm products centers largely in the operations of the Farm Board, which is an important factor in the immediate situation but naturally cannot commit itself upon a long term policy. It frankly says that it will not undertake to support prices if the farmers disregard its advice in regard to the acreage to be planted. It must hold itself in position to exercise its judgment as events develop, but the question of what its judgment will be is a constant element of uncertainty in the markets. What disposition will be made of wheat and cotton upon which the Board has made loans, and of wheat which the Stabilization Corporation has purchased, is an important question to all holders of wheat and cotton, and to the flour-milling and cotton-goods industries. Can these holdings be considered off the market until sold at prices that will clear up the charges against them, or may the Board elect to clear them out if this year's crops should prove to be disappointingly large? Assurance has been given that there is no present purpose of dumping them, but they remain in the world's stocks and a factor in calculations.

The stabilization corporation operating in wheat discontinued on March 1st the policy of buying wheat at the loan values established by the Farm Board last October, which now are 10 cents or thereabouts above open market prices. This puts an end to the abnormal situation presented by two prices for wheat of the same grade at the same place and at the same time. Another change is a lowering of the rate of interest on Board loans to 3 per cent per annum, on the strength of the lower rates at which the Treasury is borrowing in the public market.

The Wheat Situation

When the Farm Board announced last October its purpose to make loans on wheat up to within 10 per cent of the market value, it justified the policy by saying that in its opinion "based on the known wheat supply, the prevailing prices for wheat are too low."

It is true that current information at that time seemed to afford a basis for the Board's opinion. The authorities of the Canadian Wheat Pool accepted the same view, and the theory adopted by both bodies was that it would be sound policy to allow Argentina and Australasia to market their wheat crops without entering into competition with them, and trust to selling the North American wheat after the other supplies were out of the way.

The developments since October have not borne out the expectations as to European needs. The prospect now is that the North

American carry-over at the end of the present crop year will be approximately as large as that of last year, and in view of the extraordinary efforts of the Russian government to increase the grain exports of that country it seems not improbable that available supplies in the next crop year will be as large as this year.

The Governor of the State of North Dakota having written a letter to Mr. Legge, Chairman of the Federal Farm Board, asking about the plans of the Board for the remainder of this crop year, the latter has written and made public a reply which does him credit as a frank and courageous expression of opinion.

He practically admits that there is little or no prospect of getting rid of the Farm Board's holdings of wheat before the new harvest, but goes much further. He says that "we cannot see how we can permanently hope to compete in export markets on this commodity," and virtually proposes that the farmers of this country give up the idea of producing wheat for export and confine their wheat growing to an amount sufficient to supply the home market, plus perhaps a small quantity of high protein wheats "which will always be in demand for mixing purposes." He adds:

The present operations of the Stabilization Corporation will undoubtedly result in their having upward of 100,000,000 bushels of wheat on hand at the close of this present season, and, if farmers are going ahead trying to produce an additional surplus, on the basis that some way will be found to take care of it on a fair price level another year, they are going to be mistaken.

If they will cooperate, the Stabilization Corporation will be justified in paying storage charges and carrying this wheat for a time in the hope that a crop shortage somewhere in the world will give them an opportunity to unload it, but if, on the other hand, the farmers' attitude is to let George do it all, the natural procedure would seem to be to dispose of this wheat the best they could and write off the loss, but doing this would probably adversely affect the price of the 1930 crop.

The Policy of Restricted Production

Thus the Board has taken the position that there can be no effective control of prices without effective control over production, which is the conclusion long ago reached by students of the subject the world over.

In wheat the Board recommends a reduction of at least 10 per cent in the acreage and says that 20 per cent would be better. As to cotton also it recommends a reduction, with a general diversification of crops in the Southern States. The following is from a formal statement on the subject:

The Federal Farm Board cannot protect farmers when they deliberately overplant. What the board will do to help in marketing next year's crop will depend upon what farmers do at planting time. If southern farmers should raise their own food and feed and, in addition to that, should raise the food that southern city people eat, so far as the climate and soil will let them, there would be small danger of any cotton surplus at an unprofitable price.

It does not detract from the intrinsic soundness of this advice that it has been given a great many times. Mr. Carl Williams, member of the Board, charged with especially looking after cotton, gave out a statement on March 22, in which he said:

If the South were to feed itself, it would take at least one-third of the acreage now planted in cotton. Wheat and corn make wonderful rotation crops. The acreage planted in these two crops last year was about 46,000,000.

I have said that any acreage over 40,000,000 planted in cotton is above the danger line from the standpoint of excess production. Of course, along with that excess quantity, the quality of cotton produced in the South is not as good as it could be.

What the South needs is a longer staple cotton than it is producing. In other words, the quantity planted in cotton ought to come down and the quality go up.

The cotton acreage last year was about 46,000,000, hence the reduction asked for is about 13 per cent. If the reduction in wheat acreage is to be 10 to 20 per cent of the total the reduction in the principal wheat states will need to be more, to cover the increase in acreage proposed for the cotton states. Of course it is too late to secure any reduction in the acreage of winter wheat for this year's harvest.

An Unwelcome Proposal

These utterances of the Board are not meeting with a cordial response among the most active proponents of farm relief. Senator Brookhart says the proposal for restriction is about the worst he can imagine, and Senator Norbeck and other Senators agree with him. They say a farm board was not needed to give advice of this kind. They knew all the time that better prices could be had by cutting down production, but what they want of the Board is price-stability without regard to the volume of production. In their opinion the Board is practically throwing the problem back on their hands—or on the hands of the farmers—just as it was before. Many of them freely say that restriction by request or agreement is impossible of realization.

Evidently this is the real problem in all attempts to control production. The Farm Board has no power to enforce restriction, and nobody has yet suggested that the United States shall create an official organization to enforce general crop restriction or to allot to every farmer the amount of each crop which he will be permitted to produce.

Any attempt on the part of the government to restrict the production of individual farmers is inconsistent with all of its past efforts for the development of agriculture. This is strikingly illustrated by a letter recently written by an Iowa farmer to Senator Brookhart, which has found its way into print. We give an extract herewith, the writer being Mr. Arthur Mikalek, of Rolfe, Iowa:

I am a small farmer in Iowa. For years I have devoted my time and efforts to improve my methods so that I could raise more grain per acre, more milk per cow, more beef per steer, more eggs per hen. That is the only way I can earn my living and lay something aside for my old age. We have a county agent who meets with us farmers to show us how

we can do this better. Our agricultural school at Ames, supported by the taxes we pay, is teaching our boys to get more out of our farms. They are experimenting with crop rotation, soil culture, preventatives for disease and everything pertaining to the farm to find ways of raising more products.

We fight the weather, plant and animal disease, insects and weeds and pray that the Lord will reward our efforts and that we may produce more abundantly. Now Mr. Legge says that is all wrong. If we don't quit this, prices are going way down. * * * Why should I fertilize my soil? Why should I vaccinate my hogs? Why should I cultivate my corn? Why should I care for my live stock?

There is no answer to Mr. Mikalek as an individual farmer; nevertheless, there may be over-production of farm products in relation to the demand. The question is as to how restriction shall be applied or distributed, and here Mr. Mikalek's letter is very much in point. He is a progressive farmer, probably representative of the class which gets more than the average yield of grain per acre, more eggs to the hen, more milk to the cow, use up-to-date machinery, rotate their crops and fertilize their land. He is constantly studying to increase the production of his farm and lower the costs per unit of product. Furthermore, the land of his locality is more fertile than much of the land which is under cultivation in this country. Largely by the activities of farmers like Mr. Mikalek and situated as he is, the volume of farm products has been increasing faster than the demand for them, and complaints arise in numerous quarters that prices are unremunerative. Congress creates a Federal Farm Board, which concludes that the only way prices can be raised is by curtailing production. If the Farm Board was authorized to enforce curtailment, as a matter of public policy how would it deal with farmers of the Mikalek type? Would it reduce their acreage in crops to correspond with a general plan of reduction applying to all farms?

In an address before the Nebraska State Dairyman's Association at Lincoln on January 8, 1930, Mr. O. E. Reed, Chief of the Bureau of Dairy Industry, United States Department of Agriculture, made use of an estimate that one-third of the dairy cows of this country are not returning a profit to their owners. Nevertheless well-managed dairying is a profitable business. The Farm Board has urged a reduction of milk production, but in this instance has proposed that it be accomplished by weeding out the unprofitable cows. What if Mr. Mikalek has no unprofitable cows? Should his herd be reduced, nevertheless?

Mr. Williams has emphasized the well-attested fact that one of the reasons for distress among the cotton-growers is that they are producing too much low grade cotton. Would it be a rational remedy for this situation to have the growers of high-grade cotton cut down their production in response to his general appeal?

The wheat-growers of the plains region have deliberately increased their acreage in wheat this year despite the appeals of the Farm Board. They say that with the conditions existing there, wheat is their most profitable crop, the price is satisfactory to them and they are not asking for relief. Why should they curtail production in behalf of competitors not so well situated for wheat production?

Enforced Reduction Impracticable

These instances show not only the utter impracticability of any attempt to enforce uniform crop reduction but the unreasonableness of a plea for uniform reduction. A farmer's policy must be guided by the conditions in which he, as an individual, is involved. He should plant what pays best on his farm, for thereby he serves not only himself but the public interest as well. The public is immensely interested in the efficient and economical production of foodstuffs and clothing materials. The greater part of the income of the wage-earning population goes for these things. There are larger possibilities of improvement in the living conditions of the masses by lowering the cost of food and clothing than by any other means. It would be a great step of social progress if all farm production could be had from farmers of the Mikalek type, in which case a large proportion of the present farm population would be transferred to other industries, probably to its own great advantage.

After all, then, what better method of regulating production, and of determining where production shall be curtailed, can there be than the natural process of elimination based on individual results? Why not allow the marginal lands and marginal farmers to drop out of production? There are lands in crop which ought not to be under cultivation and farmers who would do better at something else. Let it be understood that all appeals for curtailment apply only to unprofitable production, as in the case of dairy cows. In short, why not accept the law of the survival of the fittest, which, in business does not mean that anybody is exterminated, but simply that everybody must endeavor to find the place in which he will be most useful. This may be in Henry Ford's assembly line rather than in the management of a herd of dairy cows.

Stimulating Production

One of the conditions naturally restricting production is scarcity of capital. There are persons in every line of industry who would increase their output if they had the capital with which to do so. If there was a shortage of agricultural products and need to stimulate their production, it might be advisable for the government to lend money at a low rate of interest to encourage larger operations. How-

ever, it is agreed that the opposite is the situation. Production is increasing at an embarrassing rate. Farmers of the Mikalek type are multiplying and are able to obtain what credit they want on their own responsibility at current rates paid by borrowers of other occupations in the same localities. It is a question whether the effect of supplying funds from the public treasury at wholesale to all farmers, without risk to them and at an artificially low rate of interest, will not tend to the demoralization of the entire industry, the progressive and successful class of farmers included. Will it not result in an artificial stimulation of production, tending to maintain the marginal production which is unneeded, unprofitable and burdensome?

The Fundamental Fallacy

The fundamental fallacy in all the so-called farm relief measures is in the attempt to deal with farmers in the mass, instead of recognizing that inevitably they must prosper or fail as individuals. The title of the Farm Board Act, "an act to establish equality between agriculture and the other industries" is a phrase taken over from the McNary-Haugen bill and suggests erroneous thinking, for the relations between industries are not fixed by legislation. It implies that a fixed number of people are farmers, must remain farmers, and that there are no conflicting interests within the guild or danger of outsiders breaking in if the compensation should be increased. All of these assumptions are incorrect. There is a free movement of population into and out of agriculture. The Bureau of Economics of the Department of Agriculture calculates that 1,876,000 persons moved from farms to cities in 1929, as compared with 1,923,000 in 1928, while 1,257,000 persons moved from cities to farms, as compared with 1,347,000 in 1928. The conflicting attractions of farm life and city life, and the contrasting disadvantages are constantly under consideration by persons who are thinking of a change one way or the other. The population of the country increases by births relatively faster than that of the city, but for the last one hundred years the rural population has been a constantly diminishing percentage of the whole. It is all to the good that owing to improvements in farming methods, a steadily diminishing percentage of the population is able to produce the required supply of farm products, and if it is true that an inequality of compensation between country and city exists, it is because the movement from one group to the other is not rapid enough to maintain the normal equilibrium. The general level of compensation in any occupation is determined by the number of persons in it.

It is not true that the interests of all farmers are one and the same, conflicting only with the interests of people in the other industries. Exactly the opposite is the case. The people of other occupations are the farm customers, while the farmers are suffering from the stress of competition with each other. Moreover, this competition is inevitable, and a farmer of the Mikalek type is twice as hard a competitor as a farmer who gets but one-half as much grain to the acre or one-half as much milk to the cow. The theory of a solidarity of interests among farmers and of a situation calling for mass treatment by legislation is fundamentally incorrect. The progress of the world has been accomplished by individualism, not communism.

A New Era In Agriculture

Agriculture is entering a new era—is already well advanced in it—an era of motor-driven machinery and more scientific cultivation. The productive capacity of the individual farm worker is increasing, the costs of production are declining and as these influences become more general prices will inevitably tend downward.

It is a fact of great significance that in this time of general industrial recession the agricultural implement industry is having one of the greatest periods of activity in its history.

Professor E. A. Storch, of the Montana Agricultural Experiment Station in a recently published article says:

> The rapid introduction of power and power machinery has brought such an entirely new situation into western agriculture that it is almost bewildering. There has been no other five-year period, or fifty-year period for that matter, where the changes have been so rapid and complete. The 15-year old boy speaks of the old-fashioned days of six years ago with the same spirit of reminiscence as his 70-year old grandfather at that time spoke of the covered wagon.
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> The average investment in equipment in the old wheat belt is about $85 per worker. In the Midwest it runs a good deal higher, or approximately $900 per worker, while in Montana it runs from $3,000 to $5,000 per worker.

At Purdue University, Indiana, in a recent Farmers' Week program, the results of the experiment station's cost records kept last summer on an 80-acre field of corn handled exclusively with a tractor, were summarized as follows:

> The tract was plowed with a two-bottom plow, using large coulters and jointers, and stalk shields, to insure clean work. The acre cost of labor, fuel and oil was $1.10. Disking and harrowing cost 63 cents an acre, while planting with a four-row planter was done at an expenditure of only 25 cents per acre. Cost of cultivation with the rotary hoe and regular tractor cultivators was likewise low.
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> Summarized results showed that an acre of corn in this 80-acre tract required only 4.55 tractor hours per acre. The total operating cost per acre, which included labor, fuel and oil, was $3.25, while the total cost, including interest and depreciation on all equipment, was only $6.30 an acre.

The following dispatch includes a statement as to the cause of low wheat prices by the President of the Kansas Cooperative Wheat Marketing Association:

> WICHITA, Kas., March 13.—Farm deliveries of wheat in Wichita sold for 86c a bushel yesterday, the lowest

of the crop year. In accounting for the remarkable depression of the market in the face of federal efforts to sustain prices, John Vesecky of Kansas City, president of the Kansas Co-Operative Wheat Marketing association said there had been a revolution in the methods of wheat growing in this country and other surplus producing nations.

"Mass production in specialized districts is the new rule," continued Mr. Vesecky. "Farms are growing in size. Use of the tractor plow and the combined harvester-thresher is eliminating the cost of wheat-growing, except to the small farmer. Early marketing of a larger percentage of the crop results in big stocks at elevator and milling centers, which become visible. This is to the advantage of consumers, especially the importers, who wish to buy as cheaply as possible."

This kind of testimony might be multiplied, but it is not necessary to go outside the reports of the Department of Agriculture for more of it. "The Agricultural Outlook for 1930," released in February, 1930, says:

Rapid changes in farm production practices during the last decade have introduced new features into the agricultural situation. There seems little doubt that the rapid development and adoption of improved farm machinery, particularly the all-purpose tractor and the variety of new cultivating and harvesting equipment associated therewith, will continue.

This will tend toward reduction of the farm-labor forces formerly required; toward enlargement of the size of farm; toward further reduction of the number of horses and mules; and toward release for other purposes of further acreages of crop and pasture land formerly required for feed for horses and mules. Further expansion of agriculture into the subhumid grazing area of the Great Plains probably will be stimulated. Milk and meat production may tend to become still further concentrated on the more fertile and level lands of the North and West. The situation of farmers in the rough or sandy areas of the country or on submarginal lands in general may be made even more difficult. In the case of cotton, improved mechanical methods now in use and others in process of development, and possible further expansion in the western sections of the Cotton Belt formerly considered unsuited to cotton, may raise a problem for lands not well adapted to machine handling. * * *

The mechanization of agriculture will undoubtedly make substantial progress in the Corn Belt of this country during the next decade or two. The increased use of the general-purpose tractor, combine-harvester, and corn picker will tend to concentrate the production of corn on the more level land and in larger fields. Land less favorably situated will be devoted more and more to the use of pasture, and high-class forage crops, and may suffer in value in comparison with the more level lands. The further reduction in horses and mules during the next 10 years will release from 20,000,000 to 30,000,000 acres of crop land in this country for uses other than growing feed for work animals.

Following is a plain statement by Mr. W. J. Spillman, principal Agricultural Economist of the Department of Agriculture, in an address before the Institute of Rural Affairs, at Blacksburg, Virginia, August 1, 1929, with especial reference to wheat and cotton, the two products upon which attention is chiefly concentrated.

We have a surplus acreage of all five of the major crops. This came about in the following ways: The high prices that prevailed for cotton during some of the war years, and for some years subsequent to the war, caused a tremendous expansion in acreage. At the beginning of the war we had 33 million acres of this crop. The acreage this year is estimated at 48 million, a 50 per cent increase. Most of this increase has been on land newly taken into cultivation in Oklahoma, Texas, and States to the West. For the most part, this land is not adapted to the production of other cash crops. The prospect of adjusting cotton acreage to probable market demand is therefore not at all bright.

The high price of wheat during the war, and for a year or two afterwards, brought in vast areas of new lands in the Western Plains region that are not adapted to other cash crops. While the wheat acreage during the war expanded from about 53 million to 73 million acres, it has now contracted to about 58 million acres. This is because much of the expansion in 1919 was in the Central States, where there are alternatives to wheat. Since that time, wheat in these States has shrunk back to approximately its pre-war acreage. But the new land brought into cultivation in the Far West remains in wheat.

The surplus of wheat is due to world conditions. There are great areas in Canada, Australia, and Argentina, as well as on our own Western Plains eminently adapted to wheat production, with land fairly low priced, where farms are large in size and the topography make feasible the use of modern labor-saving machinery of the largest sizes. This has enabled these regions to produce wheat at relatively low cost, in fact, at a cost below that possible to many of the older wheat producing regions.

Increasing Stress of Competition

While the individual farmer is enabled by the new machinery to cultivate a larger acreage than heretofore, experimental research in laboratories and fields is showing how to produce larger yields per acre. Also improved breeding, care and feeding are bringing better results in the live stock and dairy industries.

It is apparent that farming is becoming more of a skilled occupation than in the past, and it cannot be otherwise than that farmers who fail to keep pace with the development will feel the pressure of competition. The consumption of products which are the raw materials of industry, as cotton and wool, may increase with a reduction of prices, but this is not likely to be so of foodstuffs as a class, and it is probable that on the whole, with the general adoption of the new methods, fewer workers will be required on the farms. This being so, the farm problem is not one for mass treatment, but for the individual farmer to deal with according to his circumstances. The marketing problem is a very small factor, so far as cotton and wheat are concerned.

A policy which contemplates nothing but a withdrawal of acreage from production, in order to maintain prices high enough to cover the costs of production by old time methods, or in order that the same farm population may continue to live on the farms with less work to do, will not satisfy the farmers themselves. A system of crop curtailment, like an arrangement for part time labor in industry, may be justified as a means of meeting temporary conditions, but where the problem is one of increasing productive capacity and lowering costs of production, there is only one possible outcome, viz.: readjustment in conformity to the new conditions. The rise of the standard of living in the last 100 years has been accomplished by just such readjustments throughout the industries, agriculture included.

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